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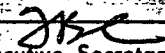
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EXECUTIVE SECRETARIAT

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Remarks:


 Executive Secretary

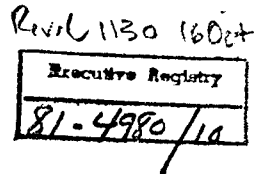
16 Oct 81

Date

3637 (12-77)

NSC review completed.

II-90021

THE WHITE HOUSE
WASHINGTON

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October 15, 1981

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE COUNSELLOR TO THE PRESIDENT
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE ✓
THE UNITED STATES REPRESENTATIVE TO THE
UNITED NATIONS
THE UNITED STATES TRADE REPRESENTATIVE
THE CHIEF OF STAFF TO THE PRESIDENT
THE DEPUTY CHIEF OF STAFF TO THE PRESIDENT
THE CHAIRMAN, JOINT CHIEFS OF STAFF

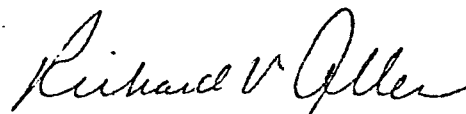
SUBJECT: National Security Council Meeting

The President will chair a National Security Council meeting in the Cabinet Room of the White House on Friday, October 16, 1981, from 2:00 to 3:00 p.m. (60 minutes). The agenda will be as follows:

- (a) East-West Trade
- (b) East-West Relations

Papers for agenda item (a) were previously distributed. Papers for agenda item (b) are attached.

FOR THE PRESIDENT:



Richard V. Allen
Assistant to the President
for National Security Affairs

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Declassify on October 15, 1983

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SECRETSECRET**EAST-WEST TRADE AND EAST-WEST POLICY**

The purpose of the meeting is to facilitate some key decisions required to complete the framework of U.S. policies concerning the Soviet Union.

To date, a comprehensive East-West Policy Study covering U.S.-Soviet political, military and economic relations has been completed and is awaiting approval.

Additionally, July NSC meetings discussed four aspects of U.S. policy on trade with the Soviet Union:

Allied Security Controls;
Controls on Oil and Gas Equipment and Technology;
The Siberian Pipeline;
Caterpillar Pipelayer License.

As an outgrowth of these meetings, a U.S. Policy on Allied Security Controls was formulated and work on implementing this policy is in progress. Similarly, a basic U.S. position on the Siberian Pipeline was developed and communicated to our Allies at the Ottawa Summit and work is in progress on alternatives to the Pipeline for presentation to our Allies later this fall.

In late July, Caterpillar's application for export of 100 pipelayers to the Soviet Union was approved and in September Caterpillar submitted an application for an additional 200 pipelayers for use on Soviet pipeline construction other than the Siberian Pipeline. Action on this application is pending.

In another action relevant to our overall policy, in October grain discussions the U.S. offered to sell the Soviets an additional 15 million tons of grain in crop year 1982, increasing the total allowable without further consultations to 23 million tons.

These actions have set portions of our policy. However, two decisions are required to complete the broad outlines of our long-term Soviet policy, to provide the basis for completing our Siberian Pipeline strategy, and to guide export licensing and other decisions that must be made in the near term:

- o Acceptance (or reformulation) of the broad policy guidance set out in the "East-West Policy" Study.
- o Setting a policy on Oil/Gas Controls.

The East-West Policy Study includes a section on "East-West Economics" which prescribes broad East-West Trade objectives and policies. However, these more abstract statements will be either supported or contravened in tangible form by the specific policy adopted on exports of oil and gas equipment and technology to the U.S.S.R.

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Given the urgent need for a stated oil/gas policy to guide day-to-day licensing decisions and other operations, and the need to complete development of our position on the Siberian Pipeline, it may be useful to reexamine this issue in the light of events since the July discussions.

The attached oil/gas papers, previously provided for the July meetings, may be useful discussion references. The East-West Policy Study has been previously forwarded and is not provided in this transmittal.

Attachments

NSC Staff Prepared Summary: Controls on Exports to the USSR of
Oil and Gas Equipment and Technology
Policy Options Paper: Controls on Export to the USSR of Oil and
Gas Equipment and Technology

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NSC STAFF PREPARED SUMMARY

Controls on Exports to the USSR of Oil and Gas
Equipment and Technology

Issue: What licensing policy should the United States adopt on controlling exports to the USSR of equipment and technology for the exploration and development of Soviet oil and natural gas? Implicit in this decision is whether the U.S. should treat oil and gas production equipment and technology as strategic commodities.

The U.S. Policy on Soviet Energy Developments

The State options papers do not directly examine the basic question, "Is it in the interest of the U.S. and the Western industrial democracies to assist energy development in the Soviet Union?" The major arguments are:

Yes

- Developing Soviet energy helps them overcome potential energy and hard currency shortages and reduces their motivation to aggression in the Persian Gulf area.
- Increases the world oil supply and keeps the Soviets from purchasing on Western oil markets, reducing pressure on world oil prices.
- Maintains a cooperative relationship with the Soviet Union in an important economic area to offset the competitive relationship in military sectors.
- Results in substantial export and employment benefits for U.S. and Allied countries.

No

- It is unlikely that the Soviet Union will ever become dependent on the world market for oil imports; if it decides to intervene in the Persian Gulf, it will do so for reasons other than to obtain oil; e.g., to deprive the West of oil.
- Western equipment and technology reduces the costs of energy development to the Soviet Union and frees resources for application in the Military Sector.

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- Western assistance contributes to an expansion of Soviet energy exports to the West and to Eastern Europe and increases their dependency on the USSR.
- It is inconsistent to seek increases in defense expenditures while making it easier for the Soviets to devote resources to their military.

Current U.S. Policy

The Carter Administration imposed special licensing requirements on exports of oil and gas related items in 1978, and tightened controls in early 1980 as part of the response to the Soviet invasion of Afghanistan. The 1980 policy, currently in force, sets a general presumption to deny exports of technology for the manufacture of oil and gas equipment, but retains the presumption to approve exports of end use equipment not subject to multilateral COCOM controls.

We need to clarify or modify current policy on oil and gas equipment and technology -- a key element in our overall export control policy -- to inform U.S. business, our European Allies, and the Soviets of our intentions and to provide a framework for U.S. actions concerning the Siberian Pipeline.

Soviet Energy

The Soviet Union needs to expand its gas production and increase oil exploration and drilling to offset anticipated declines in oil production. Without such development it may be increasingly difficult to meet domestic and East European energy requirements, let alone to generate hard currency earnings by exports of oil and gas. The Soviets plan to use Western equipment in developing their resources, since it is substantially more efficient than Soviet equipment.

U.S. Technological Leverage

U.S. based firms are the sole source suppliers of certain advanced types of equipment and technology and generally dominate the world market in these areas. However, opinions differ widely on the quality and availability of substitutes for these items and on the effectiveness of unilateral U.S. restrictions. It is generally agreed, however, that Allied restrictions would have much more significant long-term effects on Soviet production than unilateral U.S. efforts.

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Western European Perspective

Western European leaders generally favor unrestricted exports of oil and gas equipment and technology to the USSR and do not currently control exports in this area. Some see the Soviets as a more secure source than the Middle East and as a means to reduce their dependence on OPEC oil. They recognize that energy purchases from the Soviets will be spent in their own economies. A number of West European leaders also see development of domestic Soviet energy resources as mitigating Soviet adventurism in the Persian Gulf. They are thus likely to resist a restrictive approach to East-West energy trade.

Soviet Hard Currency Earnings

Oil exports currently provide about 50 percent of Soviet hard currency earnings. If Soviet oil production declines as CIA predictions indicate, the Soviets will be forced to discontinue oil exports by the end of this decade. Loss of this major source of hard currency could constrain Soviet ability to maintain current levels of imports from the West unless natural gas exports can be increased significantly.

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POLICY OPTIONS PAPER

Controls on Export to the USSR of Oil
and Gas Equipment and Technology

Issue: What policy should the United States adopt on controlling oil and gas equipment and technology exports to the Soviet Union? Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

Approach: The Administration's decision on this issue should take into account:

- the extent to which we wish to impede Soviet energy development exports;
- the political costs vis-a-vis our Allies we are willing to pay in pursuit of this policy; and,
- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package, which will contribute to Allied energy security. Such a package should aim at increasing Alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

Attachment

Statement of Pros and Cons

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Statement of Pros and ConsOption I

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny export licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

Pro:

(a) Hinders development of a strategically significant industry which is a key component of the Soviet's military-industrial base. Insofar as oil and gas production is an instrument of Soviet domestic and foreign policy, we should actively impede the Soviets' economic strength, political influence and military potential.

(b) Diminishes Soviet ability to earn hard currency through energy exports to the West. Frustrates the Soviets' professed aim to acquire Western technology. Promotes increased competition between the military and civilian sectors.

(c) Discourages European dependence on Soviet natural gas, thereby avoiding a potential weakening of NATO Alliance cohesion.

Con:

(a) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian Pipeline.

(b) Would strain U.S. and Allied relations. Europeans would view U.S. action as insensitive to their economic and energy needs. This would contribute to a long-term Soviet objective of driving a wedge between the U.S. and our NATO Allies and Japan.

(c) Hindering Soviet energy development could prompt further Soviet adventurism or efforts to increase their influence in the Middle East.

Option II

The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

Pro:

Retains the basic benefits of Option I, but is more flexible and thereby avoids straining relations with Allies.

Con:

Contains same drawbacks as Option I, but additionally may indicate less U.S. resolve to limit Soviet energy developments.

Option III

The U.S. is most concerned about major Soviet projects which contribute to Soviet production capability and our Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out the U.S. will deny all technology and end-use equipment exports for major projects while approving end use equipment exports not for major projects.

Pro:

(a) Would focus U.S. leverage on major projects.

(b) More likely to be accepted by Allies because it is more closely related to Western security concerns.

(c) Offers commercial benefits to U.S. and Allied exporters in areas not of major security concerns.

Con:

(a) Difficult to identify discrete major projects or to prevent diversion of mobile oil/gas equipment. Opportunities for leverage may therefore be limited to those items which are essentially stationary, such as pipe, wellhead assemblies, down hole equipment, and compressors.

(b) Effectiveness would be limited unless Allies agree to restrict comparable sales of technology and equipment to the Soviets. To the extent Allies fail to cooperate, compromises Western security.

(c) Denies possibility to U.S. companies of participating in major Soviet oil and gas related trade opportunities.

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Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end use equipment.

Pro:

(a) Hinders Soviet energy independence by impeding their efforts to develop technological capabilities. Denying certain critical equipment and expertise in conjunction with our Allies could also retard Soviet oil/gas production, distribution and exports.

(b) Reduces possibility of confrontation with Allies. Would permit continued European purchases of Soviet energy which acts as a hedge against dependence on Middle Eastern oil and gas from less reliable suppliers.

(c) Encourages some Soviet dependence on imports of U.S. equipment and contributes positively to the U.S. balance of payments.

Con:

(a) Increases European reliance on Soviet energy, which, regardless of any safety net, could to some extent make our Allies more vulnerable to Soviet pressure.

(b) To some extent, supports inefficient Soviet civilian sector by giving USSR access to equipment it chooses not to develop, thereby perhaps facilitating resource allocation to the military.

(c) Prevents U.S. companies from competing for some Soviet oil and gas related trade opportunities, and creates incentives for the Soviets to seek U.S. imports.

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